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STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
Land Division
Honolulu, Hawaii 96813

December 1, 2010

Board of Land and Natural Resources
State of Hawaii
Honolulu, Hawaii

PSF No.: 10HD-191

Hawaii

Set Aside to Hawaii Housing Finance and Development Corporation for Affordable Family Rental Housing Purposes; Amendment of General Lease No. S-4319, Kinooles, Lessee; Issuance of Immediate Management Right-of-Entry to Hawaii Housing Finance and Development Corporation, Waiakea, South Hilo, Hawaii, Tax Map Keys: (3) 2-4-25:01 & 02.

APPLICANT:

Hawaii Housing Finance and Development Corporation (HHFDC)

LEGAL REFERENCE:

Section 171-11 and -13, Hawaii Revised Statutes (HRS), as amended.

LOCATION:

Portion of Government lands situated at Waiakea, South Hilo, Hawaii, Tax Map Keys: (3) 2-4-25:01 & 02, as shown on the attached map labeled Exhibit 1.

AREA:

1.038 acres, more or less.

ZONING:

State Land Use District:	Urban
County of Hawaii CZO:	CG 7.5 (General Commercial)

TRUST LAND STATUS:

Section 5(b) lands of the Hawaii Admission Act

DHHL 30% entitlement lands pursuant to the Hawaii State Constitution: NO

CURRENT USE STATUS:

Affordable housing in 45-unit apartment complex known as E Komo Mai.

LEASE CHARACTER OF USE:

Low and moderate income housing development purposes.

PURPOSE OF SET-ASIDE:

Affordable family rental housing purposes.

CHAPTER 343 - ENVIRONMENTAL ASSESSMENT:

See Exemption Notification attached as Exhibit 2.

APPLICANT REQUIREMENTS:

Applicant shall comply with, or ensure that its lessee complies with, any consolidation/subdivision requirements applicable to the land under the County of Hawaii subdivision code.

REMARKS:

At its meeting of September 25, 1970, Item F-4, as amended at its meetings of November 20, 1970, Item F-55, and January 8, 1971, Item F-9, the Board of Land and Natural Resources approved the issuance of a lease to Kinoole, a non-profit and eleemosynary corporation, by direct negotiation for affordable housing purposes pursuant to Hawaii Revised Statutes, Section 171-84. General Lease No. S-4319 was thereafter issued to Kinoole as of February 1, 1971 for a term of 75 years at a fixed annual rent of \$1.00 per year. The files indicate that construction of the 45-unit affordable housing complex on the property was completed on or about October 7, 1971.

The lease initially covered a 1.025-acre parcel designated as TMK: (3) 2-4-25:01 (Parcel 1). Adjacent to Parcel 1 is a much smaller 563 square-foot parcel designated as TMK: (3) 2-4-25:02 (Parcel 2). Parcel 2 had previously been leased to Hilo Electric Light Co., Ltd. (Hilo Electric) under General Lease No. S-3338 for transformer station site purposes. Hilo Electric abandoned the substation on that site some time prior to 2004.

At its meeting of March 12, 2004, Item D-8, the Board approved the amendment of General Lease No. S-4319 to include Parcel 2 as part of the lease premises, making the total lease area approximately 1.038 acres. The Board required Kinoole to comply with

the County of Hawaii's requirements for consolidation of the parcels. To date, the consolidation has not been completed. Staff is including an Applicant Requirement above that applicant Hawaii Housing Finance and Development Corporation (HHFDC), or its lessee, be responsible for any consolidation of the two parcels if required by the County Planning Department.

Also at its meeting of March 12, 2004, Item D-8, the Board approved the issuance of an easement to the County of Hawaii for the installation and maintenance of traffic signal controller equipment on Parcel 1 next to Kinoole Street. Land Office Deed No. S-28,734 was thereafter issued to the County on July 20, 2004. The set-aside of the lands to HHFDC will be subject to this easement.

By letter dated March 24, 2010, Kinoole requested the early termination of General Lease No. S-4319 and the issuance of a new lease with a 65-year term to a partnership known as UHC 00525 Hilo, L.P., a Hawaii limited partnership (Partnership), pursuant to HRS Section 171-84. The letter explained that the buildings on the property were in need of repair and renovation due to their age, and that the Partnership was formed to obtain financing from the HHFDC, a public body and body corporate of the State of Hawaii. The financing will be used to renovate the apartment complex on the property to provide safe, decent and affordable rental housing for low-income families in the County of Hawaii.

The Partnership's participation in the project will provide it with the benefit of tax credits under the low income housing tax credit (LIHTC) program. HHFDC has already approved an award of up to \$689,554 of annual Federal LIHTC and up to \$344,777 of annual State volume cap LIHTC for the project. HHFDC also approved a Rental Housing Trust Fund Project Award loan of \$850,000 for the project. See Exhibit 3 attached.

The general partner of the Partnership is UHC 00525 Hilo Holdings LLC (Hilo Holdings). Neither the Partnership nor Hilo Holdings is a non-profit organization. Kinoole is the Partnership's managing partner. In a similar financing transaction involving different parties with respect to an affordable housing development on State land in Oahu, Oahu staff consulted with the Department of the Attorney General and learned that the involvement of a "for-profit" entity in the proposed new lease arrangement was not permissible under Hawaii Revised Statutes, Chapter 171.

In its March 24, 2010 letter, Kinoole cited HRS Section 171-84 as the basis of the Board's authority to issue a new lease to the Partnership. That section provides as follows:

Leases to certain developers of housing for low and moderate income families. Sections 171-73 to 171-76, or any other law to the contrary notwithstanding, residential public lands may be leased on a first priority basis, without a drawing or public auction, by the board of land and

natural resources to a developer or mortgagor who qualifies under the federal housing programs for low and moderate income families under the National Housing Act or state housing program for low and moderate income families as approved by the board of land and natural resources, or to a nonprofit or limited distribution corporation or association as defined in section 221(d)(3) of the National Housing Act which conforms to the standards of section 221(d)(3) but which is not a mortgagor under section 221(d)(3), all of which are regulated or supervised under federal or state laws or by political subdivisions of the State, or agencies thereof, as to rents, charges, sales prices, capital structure, rate of return, and methods of operation from the time of issuance of the building permit for the project. The lease under this section shall include terms to meet Federal Housing Administration requirements, if any, and the annual rental of the premises shall not exceed \$1 a year to the lessee. The subleasing of individual lots will be allowed with lessee retaining first right of purchase for resale to a qualified low and moderate income family in conformance with the board of land and natural resources requirements. [L 1967, c 278, §23; HRS §171-84; am L 1970, c 109, §1]

As is evident from the statute, the oversight of an affordable housing lease requires a level of regulatory expertise that the Department of Land and Natural Resources does not have. For the foregoing reasons, staff contacted HHFDC to inquire whether HHFDC would be willing to take over the lease through a set-aside of the land. At its meeting of September 9, 2010 the Board of Directors of HHFDC approved a "For Action" item to request the set-aside of the subject land and improvements to HHFDC. A copy of the HHFDC "For Action" is attached as Exhibit 3.

Additionally, an amendment of the current General Lease No. S-4319 is necessary to substitute HHFDC as the lessor under the lease. Once the land and lease are under HHFDC's control and management, it will have authority to amend General Lease No. S-4319, or cancel it and issue a new 65-year lease to the Partnership in accordance with applicable housing laws. The new lease will facilitate the financing and renovation of the apartment complex.

Staff believes the requested set-aside constitutes the highest and best use of the property based on the use of the land for affordable housing for about the last 40 years.

Kinoole and the Partnership advise staff that time is of the essence in this transaction because HHFDC financing needs to be secured before the end of 2010. It is unclear whether that deadline can be met. Staff is therefore recommending the issuance of an immediate management right-of-entry permit to HHFDC authorizing it to manage the land and the lease pending the finalization and execution of the set-aside and lease amendment instruments.

Staff has solicited comments on the subject request from the agencies identified below

with the following results.

Agency	Response
Office of Hawaiian Affairs	No response
County of Hawaii Planning Department	No response
County of Hawaii Department of Public Works	No response

There are no other pertinent issues and concerns. Staff does not have any objections to the request.

RECOMMENDATION:

That the Board, subject to Applicant fulfilling the Applicant Requirements above:

1. Approve of and recommend to the Governor the issuance of an executive order setting aside the subject lands to Hawaii Housing Finance and Development Corporation under the terms and conditions cited above, which are by this reference incorporated herein and subject further to the following:
 - A. The standard terms and conditions of the most current executive order form, as may be amended from time to time;
 - B. Disapproval by the Legislature by two-thirds vote of either the House of Representatives or the Senate or by a majority vote by both in any regular or special session next following the date of the setting aside;
 - C. Review and approval by the Department of the Attorney General; and
 - D. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.
2. Approve the amendment of General Lease No. S-4319 to Kionoole under the terms and conditions cited above, which are by this reference incorporated herein, to substitute the Hawaii Housing Finance and Development Corporation as the Lessor under the lease, and clarify that all references in the lease to "Board" shall mean HHFDC, subject further to the following:
 - A. The standard terms and conditions of the most current amendment of lease document form, as may be amended from time to time;
 - B. The effective date of the amendment shall be the date of the Board of Land and Natural Resources' approval of the subject request;

- C. Review and approval by the Department of the Attorney General; and
 - D. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.
3. Authorize the issuance of an immediate management right-of-entry permit to the Hawaii Housing Finance and Development Corporation covering the subject land and lease under the terms and conditions cited above, which are by this reference incorporated herein and further subject to the following:
- A. The standard terms and conditions of the most current right-of-entry permit form, as may be amended from time to time;
 - B. The right-of-entry permit shall remain in force until the set-aside and lease amendment under recommendations 1 and 2 above are complete; and
 - C. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.

Respectfully Submitted,



Kevin E. Moore
District Land Agent

APPROVED FOR SUBMITTAL:



Laura H. Thielon, Chairperson

COUNTY OF

Map 78

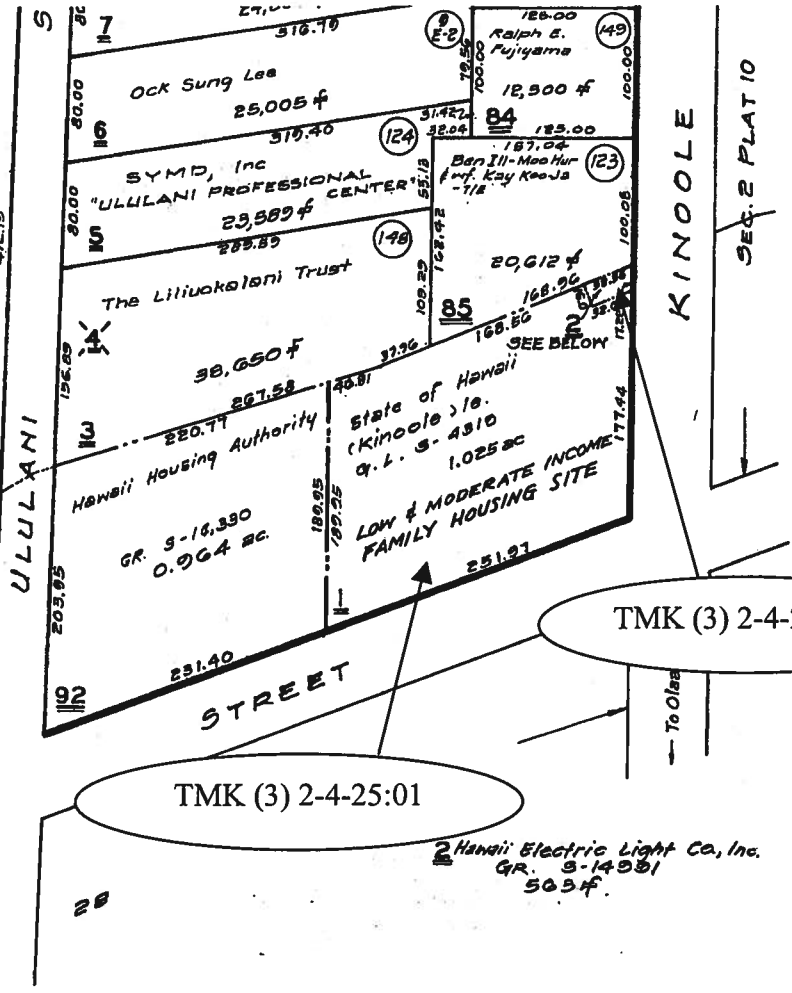
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7.936 Ac.

12352

1206
LALAI

PLAT



TMK (3) 2-4-25:02

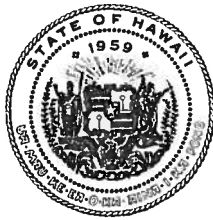
TMK (3) 2-4-25:01

Dropped Parcels: 23, 25, 42, 56, 4, 82, 84, 55, 59, 16, 91

DEPARTMENT OF THE TAX COMMISSIONER		
TAXATION MAPS BUREAU		
TERRITORY OF HAWAII		
TAX MAP		
THIRD		DIVISION
ZONE	SEC.	PLAT
2	4	25
CONTAINING		PARCELS
SCALE: 1 IN. = 100 FT.		

EXHIBIT 1

LINDA LINGLE
GOVERNOR OF HAWAII



LAURA H. THIELEN
CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
COMMISSION ON WATER RESOURCE MANAGEMENT

**STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES**

POST OFFICE BOX 621
HONOLULU, HAWAII 96809

EXEMPTION NOTIFICATION

From the preparation of an environmental assessment under the authority of Chapter 343, HRS and Chapter 11-200, HAR

Project Title: Set Aside to Hawaii Housing Finance and Development Corporation for Affordable Family Rental Housing Purposes; Amendment of General Lease No. S-4319, Kinoole, Lessee; Issuance of Immediate Management Right-of-Entry to Hawaii Housing Finance and Development Corporation

Project Number: PSF No. 10HD-191

Project Location: Waiakea, South Hilo, Hawaii, Tax Map Keys: (3) 2-4-25:01 & 02

Project Description: Set aside of improved State land to the Hawaii Housing Finance and Development Corporation for Affordable Family Rental Housing Purposes; Amendment of General Lease No. S-4319, Kinoole, Lessee; Issuance of Immediate Management Right-of-Entry to Hawaii Housing Finance and Development Corporation.

Consulted Parties: County of Hawaii Planning Department; and others

Exemption Class No.: In accordance with the "Division of Land Management's Environmental Impact Statement Exemption List", approved by the Environmental Council and dated April 28, 1986, the subject request is exempt from the preparation of an environmental assessment under the following:

Exemption Class No. 1, which states, "Operations, repairs or maintenance of existing structures, facilities, equipment or topographical features, involving negligible or no expansion or change of use beyond that previously existing."

This action before the Board is merely a transfer of management jurisdiction and does not constitute an "action" that triggers the need for an environmental assessment.

The subject land and its improvements have been used for affordable housing since 1971. The purpose of the set-aside is to allow the Hawaii Housing Finance Development Corporation (HHFDC) to take control of the property and General Lease No. S-4319 in order to finance necessary renovations to the improvements. The amendment of General Lease S-4319 will substitute HHFDC as the lessor under the lease in place of the Board of Land and Natural Resources. Thereafter, HHFDC will be in a position to issue a new lease or amended in accordance with affordable housing laws that will allow for the financing of the renovations. Accordingly, HHFDC's use of the subject land is exempt from the provisions of Chapter 343, HRS, relating to environmental assessments, because the action involves negligible or no expansion or change of use beyond that previously existing.

Recommendation: The set-aside to HHFDC will probably have minimal or no significant effect on the environment. It is recommended that the Board of Land and Natural Resources find that the proposed action is exempt from the preparation of an environmental assessment. Inasmuch as the Chapter 343 environmental requirements apply to any future use HHFDC may make of the land that is consistent with the purpose of the set-aside, HHFDC shall be responsible for compliance with Chapter 343, HRS, as amended.

Laura H. Thielen, Chairperson

Date

FOR ACTION

I. REQUEST

Approve Set Aside of the Project Site to Hawaii Housing Finance and Development Corporation and Issuance of Ground Lease for the Existing E Komo Mai Apartments Project Located in Hilo, Hawaii, TMK Nos.: (3) 2-4-025: 001 and 002.

II. FACTS

Project: Affordable Family Rental Housing Project
Property Address: 816 Kinooles Street
Hilo, Hawaii 96720
HHFDC Involvement: Lessor/Lender
Type: Affordable Multi-Family Rental Housing
Land Tenure: Leasehold
Fee Owner: State of Hawaii, Department of Land and Natural Resources (DLNR)
Set-aside from DLNR

Units and Affordability Restrictions:
3 One-Bedroom Units @ 30% AMI
21 One-Bedroom Units @ 50% AMI
11 One-Bedroom Units @ 60% AMI
9 Two-Bedroom Units @ 50% AMI
1 Two-Bedroom Resident Manager's unit
45 Total Units

Length of Affordability: Duration of ground lease
TMK: (3) 2-4-025: 001 and 002.
Acreage: 1.037 Acres
Owner: Kinooles, a Hawaii nonprofit corporation
Contact Person: Delene Osorio: phone (808) 969-3327
688 Kinooles Street, #212
Hilo, Hawaii 96720-3869

- A. The E Komo Mai Apartments (Project) is an existing affordable 45-unit rental project that was completed in 1971. The Project consists of two residential buildings and one management office/activity building. The residential buildings are 3-stories with no elevators and have a total of 35 one-bedroom units and 10 two-bedroom units. The resident manager unit is a two-bedroom unit. Buildings are of concrete/masonry construction. Project amenities include a picnic area and laundry room. The Project is on approximately 1.037 acres of land owned by the State of Hawaii in Hilo, Hawaii, TMK nos. (3) 2-4-025:001 and 002 (Exhibit A).
- B. The Project is almost 40 years old and is in need of substantial repair and renovation. A partnership known as UHC 00525 Hilo, L.P. (Partnership), a real estate holding company, was established specifically to raise the funds and undertake the repair, renovation and operation of the Project. Kinooles, a non-profit and eleemosynary corporation, is the Managing Partner and current Owner/lessee (Owner).
- C. On September 10, 2009, the Hawaii Housing Finance and Development Corporation (HHFDC) Board of Directors approved an award of up to \$689,554 of annual Federal Low-Income Housing Tax Credits (LIHTC) and up to \$344,777 of annual State volume cap LIHTC for the Project.

interim expend requirement has been satisfied. In the request for the set-aside, the HHFDC plans to also request termination of the existing lease simultaneously with the issuance of the new ground lease to the Partnership.

L. The estimated schedule for the Project is as follows:

HHFDC Request for Set-aside	October 2010
HHFDC Receives Set-aside	April 2011
Completion of EA (if required)	April 2011
Issuance of Ground Lease	April 2011
Start of Rehab Work	May 2011
Completion	April 2012

IV. RECOMMENDATION

That the HHFDC Board of Directors approve the following for the E Komo Mai Apartments Project, consisting of the rehabilitation and operation of an existing affordable rental housing at 816 Kinoole Street, Hilo, Hawaii, TMK (3) 2-4-025: 001 and 002, substantially as discussed in this For Action:

- A. Approve the set-aside of the Property to HHFDC;
- B. Approve the issuance of a 65-year ground lease at \$1.00/year to the UHC 00525 Hilo, L.P., and/or other entity approved by the HHFDC Executive Director; and
- C. Authorize the Executive Director to take all actions necessary to effectuate the purposes of this For Action;

Subject to the following:

- D. Completion of a new Environmental Assessment if so determined by OEQC;
- E. Approval and execution of necessary documents by the Executive Director;
- F. Compliance with all rules and regulations and such other terms and conditions as may be required by the Executive Director.

Attachments: Exhibit A – Location Map
Exhibit B – Kinoole Request to BLNR dated March 24, 2010
Exhibit C – DLNR Response to Kinoole dated July 19, 2010

Prepared by: Ken Takahashi, Project Manager K.T.
Stan S. Fujimoto, Project Manager SSF
Reviewed by: Richard Prahler, Development Branch Chief R.P.

Approved by The Board of Directors at its meeting
on SEP 09 2010

DEVELOPMENT BRANCH

Please take necessary action.

[Signature]
EXECUTIVE DIRECTOR

★ 816 Kinoole St
Hilo, HI 96720-3874

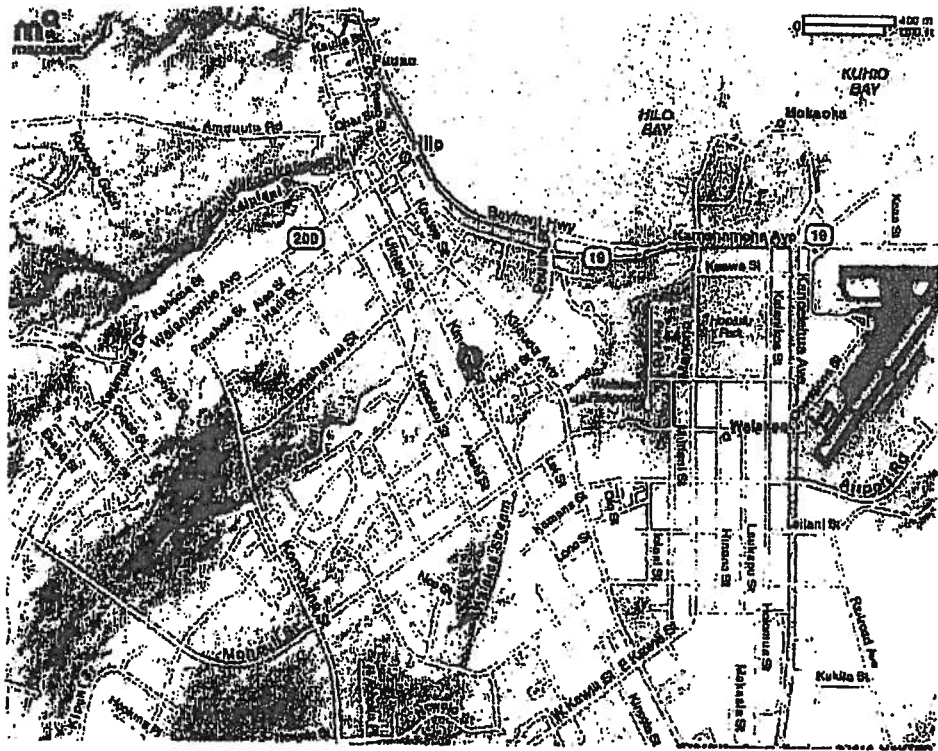


EXHIBIT A

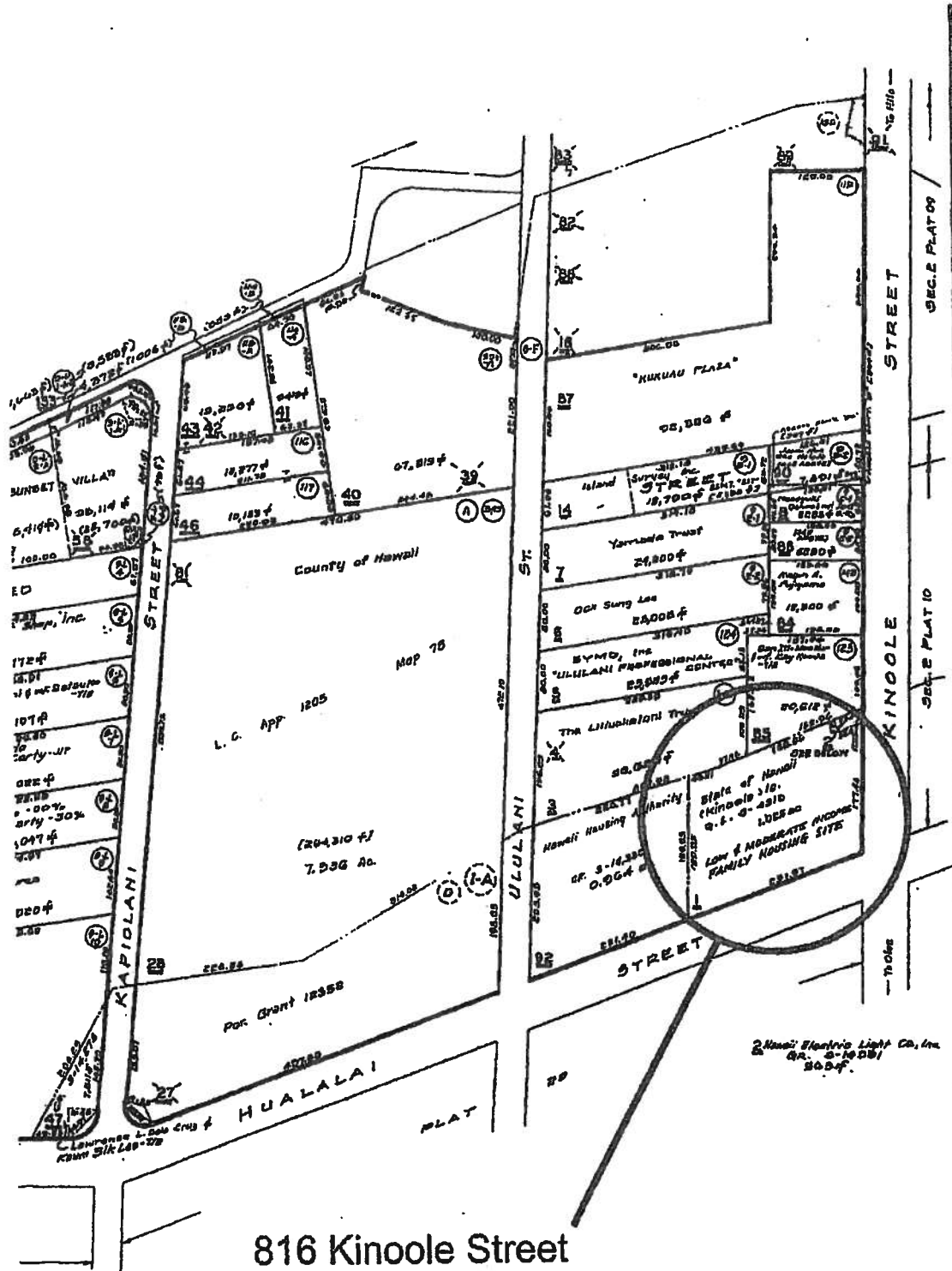


EXHIBIT A

2. Hawaii Electric Light Co., Inc.
CR. 5-10001
5000 ft.

DEPARTMENT OF THE TAX COMMISSIONER
TAXATION MAPS BUREAU
TERRITORY OF HAWAII
TAX MAP

THIRD DIVISION		PLAT
ZONE	SEC.	
2	4	25
CONTAINING		PARCELS
SCALE: 1 IN. = 100 FT.		

66891
GL 4/3/10

RECEIVED
KINOOLE
688 Kinoole Street, #212
Hilo, Hawaii 96720-3869
March 24, 2010
DEPT. OF LAND &
NATURAL RESOURCES
STATE OF HAWAII

RECEIVED

10 MAR 25 AM 11:43

DEPT OF LAND
& NATURAL RESOURCES
STATE OF HAWAII

Board of Land and Natural Resources
Department of Land and Natural Resources
Attention: Laura H. Thielen, Chairperson
Kalanimoku Building
1151 Punchbowl Street
Honolulu, Hawaii 96813

RE: Request to Terminate General Lease No. S-4319 and
to Issue a New General Lease for
TMK (3) 2-4-025-001 (Hilo, Hawaii)

Members of the Board of Land and Natural Resources:

Kinoole ("Owner"), a Hawaii nonprofit corporation, is requesting the Board of Land and Natural Resources ("Board") to issue a new General Lease covering the land described below and having a term of at least 65 years, and to terminate General Lease S-4319 upon issuance of the new lease, in furtherance of the public and charitable purpose of providing safe, decent and affordable rental housing opportunities for persons and families of low income in the County of Hawaii.

Contact Information

Contact information regarding this letter is as follows:

	Lessee	Lessee's Attorney
Name	Kinoole	Takushi Wong Lee & Yee - ALC
Address:	688 Kinoole Street, #212	841 Bishop Street, Suite 1540
City, State Zip	Hilo, Hawaii 96720-3869	Honolulu, Hawaii 96813
Tel. No.	(808) 969-3327	(808) 543-9800 - Ext. 3
FAX No.	(808) 969-7608	(808) 791-0063
Contact Person:	Delene Osorio	Dickson C.H. Lee
E-Mail:	bihf@bigislandhousing.com	lee@twly.org

3/29 by: HDO w/att.

2010 MAR 20 AM 11:34

EXHIBIT B

Board of Land and Natural Resources
Department of Land and Natural Resources
Attention: Laura H. Thielen, Chairperson
RE: Request to Terminate General Lease No. S-4319 and
Issue a New General Lease
March 24, 2010
Page 2

Land

The land which is the subject of this letter is situate at the west corner of Hualalai and Kinooles Streets, Waiakoa, South Hilo, Island of Hawaii, Hawaii which is identified as follows:

Address:	816 Kinooles Street
City, State Zip	Hilo, Hawaii 96720
Tax Map Key No.:	(3) 2-4-025-001

The land also includes a 16 x 35 feet, more or less, adjoining remnant parcel of land ("Remnant Parcel") which was identified as (3) 2-4-025-002 and which Hawaii Electric Light Company abandoned as a substation and subsequently conveyed to the State of Hawaii on or about December 1, 2003. The land originally covered by the Lease and the Remnant Parcel are collectively referred to as the "Land".

Executive Summary

The Board, as lessor, leased the Land to Owner, as lessee, for a term of 75 years from February 1, 1971 to January 31, 2046 solely for low and moderate income family housing development pursuant to General Lease No. S-4319. Thereafter, Owner developed thereon a 45-dwelling unit low income multifamily rental housing project known as E Komo Mai ("Project").

Where it is almost 40 years old, the Project is in need of substantial repair and renovation. In order to raise funds needed to repair and renovate the Project, a partnership known as UHC 00525 Hilo, L.P. ("Partnership"), of which Owner will be a managing partner, was organized to apply for and obtain financing from the Hawaii Housing Finance and Development Corporation ("HHFDC"), a public body and body corporate and politic of the State of Hawaii.

Such financing will include a mortgage loan from the Rental Housing Trust Fund program ("RHTF") made pursuant to HRS Sec. 201H-201 et seq. and equity funding provided by the federal and Hawaii low income housing tax credit program ("LIHTC") which is described in Internal Revenue Code Sec. 42 and which is administered by HHFDC pursuant to HRS Sec. 201H-15 and Sec. 235-110.8.

Where General Lease No. S-4319 has a remaining term of less than 36 years, HHFDC's financing is predicated on, among other conditions, BLNR terminating General Lease No. S-4319 and issuing to the Partnership a new General Lease having a term of at least 65 years, a

Board of Land and Natural Resources
Department of Land and Natural Resources
Attention: Laura H. Thielen, Chairperson
RE: Request to Terminate General Lease No. S-4319 and
Issue a New General Lease
March 24, 2010
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nominal ground rent of \$1.00 per year for the full term thereof and such other terms that HHFDC shall require.

Taking the foregoing actions is in the public interest of preserving the inventory of affordable housing and providing safe, decent and sanitary housing opportunities for the poor and represents a coordinated, concerted effort by the State of Hawaii, by BLNR and HHFDC, to preserve the inventory affordable rental housing and to provide safe, decent and sanitary housing for persons and families of low income in the State of Hawaii

Background

1. Title to and Use of the Land. The State is the fee simple owner of the Land. The use of the land is designated for low and moderate income housing.
2. Lease. In furtherance of the public purpose of providing affordable rental housing opportunities for persons and families of low income, the Board, as lessor, leased the Land to Owner, as lessee, pursuant to General Lease S-4319 for at term of 75 years from February 1, 1971 to January 31, 2046. By instrument dated March 12, 2004, BLNR amended the Lease to include the Remnant Parcel. A copy of the Lease, as amended, is attached as Exhibit "A".

Owner developed the Project on the Land and has been and continues to own and operate the Project in furtherance of its charitable purpose of providing affordable rental housing opportunities for persons and families of low income.

3. Rent Restriction. Owner developed the Project with financing and other assistance under Section 236 of the National Housing Act ("Section 236") from the U.S. Department of Housing and Urban Development ("HUD").

Tenant rents and methods of operation are regulated. Low income persons and families, who are eligible for admission to the Project, pay only 30% of their income for rent.

4. Substantial Repairs and Renovations Are Needed. Where it is almost 40 years old, the Project is in need of substantial repairs and renovations.
5. Sources of Funding for the Repairs and Renovations. The funding for the repairs and renovation will be provided by the following HHFDC programs which are funded by the public and by private investment in affordable housing:

EXHIBIT B

Board of Land and Natural Resources
Department of Land and Natural Resources
Attention: Laura H. Thiele, Chairperson
RE: Request to Terminate General Lease No. S-4319 and
Issue a New General Lease
March 24, 2010
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- (a) The RHTF program is a mortgage loan program which is administered by HHFDC and funded by the Hawaii conveyance tax.

HHFDC will make the Partnership a RHTF mortgage loan. A copy of HHFDC's commitment letter is attached as Exhibit "B". The commitment provides that the terms of the HHFDC mortgage loan will include, among other provisions, the following:

- (1) The term of the mortgage loan will be 57 years.
- (2) The Project will be subject to an extended use term of 61 years which restrict rental to persons and families of the following income levels:

No. of Units	Income (Area Median Income ("AMI"))
11	Not exceeding 60% of the AMI
30	Not exceeding 50% of the AMI
3	Not exceeding 30% of the Area Median Income
1	Resident manager's unit
45	Total Number of Units in the Project

The foregoing use restrictions will be evidenced by a recorded Declaration of Land Use Restrictive Covenants in favor of HHFDC, which will regulate the rents that can be charged and manner of operation of the Project.

- (b) HHFDC will allocate federal and Hawaii LIHTCs to the Partnership. Under the federal and Hawaii LIHTC programs, investors provide equity funding for federal and Hawaii tax credits. A copy of HHFDC's allocation of federal and Hawaii LIHTCs to the Project is attached as Exhibit "C".
6. Financing Structure. The foregoing HHFDC housing finance and development programs contemplate the following:
- (a) BLNR will issue a new General Lease to the Partnership for a term of at least 65 years at a ground lease rent of \$1.00 per year for the full term thereof and terminate General Lease No. 4319 upon the issuance of the new lease.

EXHIBIT B

Board of Land and Natural Resources
Department of Land and Natural Resources
Attention: Laura H. Thiele, Chairperson
RE: Request to Terminate General Lease No. S-4319 and
Issue a New General Lease
March 24, 2010
Page 5

- (b) Other partners will make capital contributions to the Partnership to pay for the repairs and renovations of the Project.

Authority

BLNR is authorized to take the requested actions without a drawing or public auction pursuant to HRS Sec. 171-84 provides, in relevant part, as follows:

"Sections 171-73 to 171-76, or any other law to the contrary notwithstanding, residential public lands may be leased on a first priority basis, without a drawing or public auction, by the board of land and natural resources to a developer or mortgagor who qualifies under the federal housing programs for low and moderate income families under the National Housing Act or state housing program for low and moderate income families as approved by the board of land and natural resources, or to a nonprofit or limited distribution corporation or association as defined in section 221(d)(3) of the National Housing Act which conforms to the standards of section 221(d)(3) but which is not a mortgagor under section 221(d)(3), all of which are regulated or supervised under federal or state laws or by political subdivisions of the State, or agencies thereof, as to rents, charges, sales prices, capital structure, rate of return, and methods of operation from the time of issuance of the building permit for the project. The lease under this section shall include terms to meet Federal Housing Administration requirements, if any, and the annual rental of the premises shall not exceed \$1 a year to the lessee."

Public Interest

In 1970, the Hawaii Legislature made the following finding to then HRS Sec. 359G-1:

"The legislature of the State of Hawaii has determined that there exists in the State a critical shortage of housing units for lower income residents."

In 2005, then legislator Michael Kahikina remarked in support of the passage of omnibus legislation to provide incentives to the private sector to invest money in affordable housing projects as a way of addressing the need for affordable housing:

EXHIBIT B

Board of Land and Natural Resources
Department of Land and Natural Resources
Attention: Laura H. Thielen, Chairperson
RE: Request to Terminate General Lease No. S-4319 and
Issue a New General Lease
March 24, 2010
Page 6

"The affordable housing crisis in Hawaii must be addressed.... Our low income ... families are caught in the spiral of rising home prices that shuts them out of the housing market. ... Working families who must rent homes or apartments face a depleted market because no affordable rental housing has been built in the last ten years. Instead, they are confronted with few options, such as pay more for shelter than they can afford, live in crowded substandard conditions often with family or friends.... And the working poor and homeless have even fewer choices for shelter as public housing and subsidized shelters have long waiting lists and federal rent subsidies are drying up.

Many housing finance and development programs either been terminated or funding for such programs have been substantially reduced as a result of governmental fiscal restraints.

The provision of financing by HHFDC and the termination of General Lease No. S-4319 and issuance of a new General Lease by BLNR, as contemplated by HHFDC's conditions for financing, represent a coordinated, concerted effort by the State of Hawaii to preserve the inventory affordable rental housing and to provide safe, decent and sanitary housing for persons and families of low income in the State of Hawaii.

The Board is respectfully requested to include the forgoing actions at its earliest meeting agenda.

Very truly yours,

KINOOLE, a Hawaii nonprofit corporation

By: 
Yulio Takeya
Its: President

Enclosures: Exhibit "A" Lease
Exhibit "B" HHFDC Commitment Letter to Provide RHTF Mortgage Loan
Exhibit "C" HHFDC Allocation Letter Re LIHTC

EXHIBIT B

LINDA J. KIKULI
GOVERNOR OF HAWAII



LAILA EL HADEJIN
TREASURER
DEPARTMENT OF LAND AND NATURAL RESOURCES
COMMUNICATIONS SECTION (808) 974-6222

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
LAND DIVISION

75 Aupuni Street, Room 204
Hilo, Hawaii 96720
PHONE: (808) 974-6203
FAX: (808) 974-6222
July 19, 2010

RECEIVED
HAWAII HOUSING FINANCE
DEVELOPMENT CORP
2010 JUL 21 A 10 01

Kinoole
688 Kinoole Street, #212
Hilo, HI 96720-3869

Attn: Delene Osorio

Dear Lessee:

Subject: General Lease No. S-4319 to Kinoole, Lessee, Waiakca, South Hilo,
Hawaii, Tax Map Key: 3rd/ 2-4-025:001

Your letter of March 24, 2010 has been forwarded to our office. We apologize for the delay in responding.

We have been in communication with the Hawaii Housing Finance and Development Corporation (HHFDC) regarding the possible transfer of the above-referenced land to HHFDC. Such a transfer would consolidate oversight of the financing and leasing aspects of your program within a single agency. As an initial step in this process, HHFDC's Board of Directors will need to make a formal request for the set-aside of the land to HHFDC. Once we receive this request, we will prepare a recommendation to the Board of Land and Natural Resources to approve the set-aside.

In the meantime, if you have any questions, please contact me at 974-6203. Thank you.

Sincerely,

Kevin E. Moore
Hawaii District Land Agent

c: Land Board Member
Central Files
Ken Takahashi, HHFDC

EXHIBIT C